MISSISSIPPI RURAL ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM EXPLANATION AND EXAMPLES

The Mississippi Rural Economic Development Assistance Program (RED), administered by the Mississippi Business Finance Corporation (MBFC), is a program designed to enhance projects financed through the Industrial Development Revenue Bond Program (IRB) and the Small Enterprise Development Program (SED). Companies that meet eligibility requirements to finance projects through the IRB and SED Programs and receive credits on Mississippi corporate income taxes may include manufacturing facilities, processing facilities, warehouses and distribution centers, telecommunication companies, data/information processing companies, national and regional headquarters, research and development companies, and technology intensive enterprises. Credit amounts available to an eligible company are a function of the company's project-related debt service. The annual debt service for a project includes all costs associated with the issuance of bonds, letters of credit, annual service fees, and principal and interest payments.

Eligible costs include land, property eligible for depreciation under the Internal Revenue Code, and certain costs connected with the financing for the project. Working capital is not eligible under the RED Program. Only project costs expended after the project has been induced (approved) by MBFC are eligible for financing under the RED Program. Any company considering participating in the RED Program should seek to have the project induced as early as possible.

Bonds are issued under the authority of Sections 57-10-401 and following of the Mississippi Code of 1972, as amended. Repayment of the bonds will be entirely the responsibility of the company. In the loan agreement between MBFC and the company, the company will agree to make payments in the same amount, time, and manner as MBFC is required to pay for the bonds under the bonds' trust indenture. As part of the closing for the bonds and the loan, MBFC's rights under the loan agreement, with certain exceptions, will be assigned to the trustee for the bonds. The company will deal primarily with the trustee after the loan is closed. All debt payments will be made to the trustee bank.

CORPORATE INCOME TAX CREDIT

A company will be allowed to reduce the amount of state income tax paid by the amount it pays in annual debt service on the bonds. The credit may be taken for up to a maximum of 80% of the company's state income tax liability in each year. If the annual debt service payments exceed corporate income tax credits allowed in any year, the company may apply those debt service payments against its taxes for up to three (3) years following the year in which the credits were earned. The trustee for the bonds will be required to report annually to MBFC and, if requested, to the State Tax Commission, the total debt service paid by the company.

Upon commencing payments of debt service, the company is authorized to adjust its estimated income tax payments to reflect the reduction in taxes expected to result from the application of tax credits connected with the RED Program.

AD VALOREM EXEMPTIONS

Ad valorem exemptions may be obtained under the RED Program under certain conditions. Requests for exemptions must be approved by the pertinent local political subdivision(s), which will be the county in all situations, and in some circumstances, will also include the local municipality. No exemption is available under any circumstance for the school tax portion of the ad valorem taxes. A resolution from the local political subdivision(s) authorizing any exemptions must be submitted to MBFC when the application or request for bond financing is filed.

COMPANY EXPANSION PROVISIONS

For bonds issued to finance the expansion of an existing facility, tax credits may be used to offset a certain percentage of the company's tax liability. That percentage is determined by MBFC using a formula that considers both increases in employment and investment. The formula is included in the RED Guidelines published by MBFC.

GENERAL PROVISIONS

As part of the documentation of the bond issue, the company will be required to enter into covenants in the loan agreement with MBFC to address the provisions of the RED Program. These covenants will be in addition to the typical covenants contained in loan agreements for large commercial projects. For a project that is an expansion of an existing facility, more covenants will apply. Among the covenants required will be the following:

> (a) The parties hereto acknowledge that the Company has been induced to proceed with the acquisition and construction of the Project in part by the benefits conferred by the Act. The Issuer hereby agrees that the Company shall be permitted to take advantage of all of the benefits provided by the Act to the fullest extent therein set forth subject to the rules and regulations of the Issuer. The Issuer agrees that it will not take any action to limit, curtail or otherwise make unavailable to the Company any of the benefits available under the Act.
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> (b) With respect to benefits conferred by the Act referenced in (a) above, the following shall apply:

(1) The maximum income tax credit to be utilized in any taxable year of the Company is 80% of the Company's tax liability and shall not exceed the payments of the principal of, premium, if any, and interest payments on the Bond during such year and the reasonable fees and expenses of the Trustee and any other reasonable fees and expenses referenced herein.

(2) Any benefit claimed or received by the Company for any Cost shall not be used as a deduction under the laws of the State of Mississippi in order to determine the taxable income of the Company.

(3) The Company shall request the Trustee to provide the Issuer, not later than ninety (90) days after the end of each calendar year, with a certificate setting

forth the amount of all payments made to the Trustee with respect to the Bonds whether for principal, premium, interest or the fees and expenses of the Trustee.

(4) The benefits accruing to the Company under this Section 2.3 shall cease in the event:

(A) a default should occur under the Loan Agreement or the Indenture;

(B) the Company should fail to operate the Project for a period of nine (9) consecutive months following the initial start up of the Project except for force majeure, strikes, lockouts, damage, destruction, act of God or in general, reasons beyond the Company's reasonable control excepting, however, general economic conditions.

(5) The Company agrees to comply with the terms and provisions of the Act in all respects with respect to the benefits available under the Act.

(6) The benefits or credits available under the Act shall cease to accrue on the date the principal and interest on the Bonds are paid in full whether at maturity or by way of redemption and any benefits for credits carried forward as permitted by the Act shall be available to the Company for three (3) years from such date of payment or redemption at which time all benefits under the Act shall cease to exist and all unused benefits or credits shall be forfeited.

(7) The benefits accruing to the Company under this Section of the Loan Agreement shall be limited to the annual debt service payments on the Bonds for qualified Cost of the Project and shall be reduced by the amount of surplus funds remaining after completion.

(8) The Company will report to the Mississippi Employment Security Commission ("MESC") its employees as required by law, and shall annually report to MBFC the average number of employees reported for each year to the MESC. This shall be done for each year after the year in which the Project was induced for financing by the MBFC.

RED PROGRAM EXAMPLES

New Company

If a new company has an annual debt service on its bonds of $500,000 the following examples illustrate the benefits of the RED Program for this company.

Example One:

State corporate tax liability less than debt service:

Year	State Corporate Income Tax	Amount Eligible As Corporate Tax Credits
1	$ 157,421	$ 125,937

$ 500,000	Debt Service
(125,937)	Corporate Tax Credit
$ 374,063 *	Net Debt Service Payable by the Company

* May be recouped in future years.

Example Two:

State corporate tax liability more than debt service:

State Corporate Income Tax	Amount Eligible As Corporate Tax Credits
$ 750,000	$ 500,000*

$ 750,000	Debt Service
(500,000)	Corporate Tax Credits
-0-	Net Debt Service Payable by the Company
$ 250,000	Net Corporate Income Tax Payable by the Company (No carry-forward eligible)

*Corporate tax liability may be reduced only by the amount of debt service.

REGULATIONS PURSUANT TO SECTIONS 57-10-401 AND FOLLOWING OF THE MISSISSIPPI CODE ANNOTATED OF 1972

RURAL ECONOMIC DEVELOPMENT (RED) GUIDELINES

SECTION 1. VALUATION OF EXPANSIONS. To determine the percentage of the Company's state income tax liability eligible for an income tax credit under the RED program when the Company is expanding, the economic tax valuation percentage must be computed. To do this, determine the percentage increase in employment and the percentage increase in capital investment in the State of Mississippi ("State") connected with the Company's expansion. Then calculate the economic tax valuation percentage according to the formulas below.

1. **Increase in Employment (Net New Jobs)**. The determination of net new jobs will be computed as follows:

(a) The existing employment base is identified as the average number of employees reported by the Company to the Mississippi Employment Security Commission ("MESC") for the twelve (12) months preceding the month during which the Company is induced for financing by the MBFC.

(b) The future employment base will be the average number of employees reported by the Company to the MESC each year after the year in which the Company is induced for financing by the MBFC.

(c) The percentage of total increased employment is determined by subtracting the existing employment base from the future employment base, dividing the result by the future employment base, and then converting the resulting fraction to a percentage. This percentage will be adjusted each year based on the average number of employees reported by the Company to MESC each year.

2. **Increase in Capital Investment**. The determination of increased capital investment will be determined as follows:

(a) The present value of the Company's capital assets will equal the value as determined by the tax assessors of the county or counties, as appropriate, where the Company's facilities in Mississippi are located.

(b) The value of new fixed assets will equal the cost of the land, building and equipment purchased with bond proceeds or Company Equity in connection with the expansion project. Company Equity shall consist of money generated from the Company's earnings from operations or from investment by the Company's owners, including partners, stockholders, members or sole proprietors, as the case may be.

(c) The percentage of the capital investment increase will be determined by dividing the cost of the new fixed assets by the total value of the Company's capital assets upon completion as determined by the tax assessors of the counties in which the Company has facilities and then converting the resulting fraction to a percentage.

3. **Economic tax valuation percentage**.

(a) **Initial Project Eligible for RED Benefits**. The economic tax valuation percentage ("ETVP") for the initial project of a company that is granted RED benefits shall be determined by multiplying the employment percentage by two (2), adding the capital investment percentage, and then dividing by three (3). For all expansion projects, whether governed by Section 27-7-22.3 of the Mississippi Code prior to the amendment that became effective on July 1, 1997, or governed by the section amended as of July 1, 1997, the ETVP shall be the percentage of the Company's income that is considered to be generated by or arising out of the expansion project. The same percentage shall be used to determine the percentage of the company's income tax liability against which the tax credits may be taken. However, for Company's governed by the version of Section 27-7-22.3 effective July 1, 1997, and afterwards the tax credit allowed shall not exceed eighty percent (80%) of the amount of taxes due to the State of Mississippi regardless whether the ETVP may yield a higher percentage of such taxes against which tax credits potentially could be taken.

(b) **Subsequent Projects Eligible for RED Benefits**. **Effect on prior projects; Calculation of RED Benefits for the Subsequent Project**. The intent of this paragraph is for the RED benefits granted for each Company project subsequent to the initial project to be calculated independently of and to be unaffected by RED benefits granted for any prior Company projects. Prior Company projects, however, shall be affected by a subsequent project. A cap is placed on the economic tax valuation percentage for the prior project using the facts in existence as of the date of inducement for the subsequent project.

i. <u>Capping the Economic Tax Valuation for the Prior Project</u>.

The Economic Tax Valuation Percentage ("ETVP") of the prior project shall be capped as of the date of inducement for the subsequent project. This shall be the upper limit of the ETVP for the prior project from that date forward. To calculate the prior project's ETVP on the date of inducement for the subsequent project, the formula stated in paragraph's 1 and 2 above shall be used. In the event the average 12 month employment level at the Company should ever decrease below the base level of employment ("BLE"), the ETVP for the prior project shall be recalculated using the decreased level of employment. The base level of employment ("BLE") is identified as the average number of employees reported by the Company to the Mississippi Employment Security Commission ("MESC") for the twelve (12) months preceding the month during which the Company is induced for financing by the MBFC for the subsequent project. The ETVP for the prior project shall be recalculated in each subsequent year in which average employment for the 12 month measuring period is equal to or less than the BLE. For any subsequent year in which employment exceeds the BLE, the ETVP shall equal the cap established on the inducement date of the subsequent project.

ii. Calculation of RED Benefits for the Subsequent Project.

To determine the Economic Tax Valuation Percentage for the subsequent project, the following formula shall apply.

aa. **Increase in Employment (Net New Jobs)**. The determination of net new jobs for a subsequent project will be computed as follows:

(i) The future employment base will be the average number of employees reported by the Company to the MESC each year after the year in which the Company is induced for financing by the MBFC for the subsequent project.

(ii) The percentage of total increased employment is determined by subtracting the BLE (as defined in 4a above) from the future employment base, dividing the result by the future employment base, and then converting the resulting fraction to a percentage. This percentage will be adjusted each year based on the average number of employees reported by the Company to MESC each year. In the event that employment should equal or be less than the BLE, the Net new jobs percentage shall be zero.

bb. **Increase in Capital Investment**. The determination of increased capital investment will be determined as follows:

(i) The present value of the Company's capital assets will equal the value as determined by the tax assessors of the county or counties, as appropriate, where the Company's facilities in Mississippi are located. Use the assets in existence on the date of inducement of the subsequent project, including any assets connected with prior projects for which RED benefits were granted.

(ii) The value of new fixed assets will equal the cost of the land, building and equipment purchased with bond proceeds or Company Equity in connection with the subsequent project. Company Equity shall consist of money generated from the Company's earnings from operations or from investment by the Company's owners, including partners, stockholders, members or sole proprietors, as the case may be.

(iii) The percentage of the capital investment increase will be determined by dividing the cost of the new fixed assets by the total value of the Company's capital assets upon completion as determined by the tax assessors of the counties in which the Company has facilities and then converting the resulting fraction to a percentage.

cc. **Economic tax valuation percentage** . . . The economic tax valuation percentage for the subsequent project of a company that is granted RED benefits shall be determined by multiplying the percentage of total increased employment by two (2), adding the percentage of increase of capital investment, and then dividing by three (3). The resulting economic tax valuation percentage shall be the percentage of the Company's state income tax liability eligible for an income tax credit for the subsequent project under the RED program. This figure shall be recalculated annually using the employment figures reported to the MESC for the previous 12 months.

SECTION 2. INELIGIBLE MANUFACTURERS AND PROCESSORS . . . Because of their ability to influence public opinion, the following entities are not eligible to receive benefits under the RED Program:

(a) Newspapers publishers
(b) Magazine publishers
(c) Book publishers
(d) Radio or television broadcasters

SECTION 3. **ACQUISITION OF FACILITIES LOCATED IN THE STATE.** In connection with the acquisition of assets or facilities existing within the State at or prior to the acquisition date, no benefits under the RED program shall be available, except under the following circumstances:

(a) A formal decision to close the existing facility by the seller must have been announced by means of a notice ("WARN Notice") delivered in the manner prescribed in the Worker Adjustment and Relocation Act, 29 U.S.C. Sections 2101 and following, or some other substantially similar formal, verifiable evidence must be available to confirm that a decision to close the existing facility has been made;

(b) The purchaser must provide a letter to the MBFC stating that without the benefits available under and pursuant to the RED program, the purchaser would be unwilling to purchase the facility or assets; and

(c) The equity owners of the seller may not have effective voting control, directly or indirectly, of the purchaser for a period of not less than ten (10) years, and under no circumstances may the equity owners of the seller during such period own more than twenty-five (25%) of the equity interest of the purchaser.

The RED benefits offered, if any: (1) shall be based on the facts and circumstances of each case, (2) shall be subject to review and approval by the board of directors of MBFC, and (3) shall be subject to any conditions imposed by such board in addition to or in lieu of the conditions stated above.

SECTION 4. DEFINITIONS.

(a) **Manufacturing and Manufacturing Facility:**

The terms "manufacturing" and "manufacturing facility" shall have the same meaning as given to those terms in Section 144 of the Internal Revenue Code of 1986 (the "1986 Code") and in the related rulings and cases pertaining to qualified small issue bonds interpreting the 1986 Code and the Internal Revenue Code of 1954.

(b) Telecommunications Enterprises:

The term "telecommunications enterprises" means entities engaged in the creation, display, management, storage, processing, transmission or distribution for compensation of images, text, voice, video or data by wire or by wireless means, or entities engaged in the construction, design, development, manufacture, maintenance or distribution for compensation of devices, products, software or structures used in the above activities. Companies organized to do business as commercial broadcast radio stations, television stations or news organizations primarily serving in-state markets shall not be included within the definition of the term "telecommunications enterprises." For a telecommunication enterprise to qualify for RED benefits there must be a minimum investment of $5,000,000 and at least 20 full-time direct jobs created or if 50 full-time direct jobs are created, a minimum investment of $2,000,000.

(c) **Distribution Center:**

The term "distribution center" means a warehouse or distribution facility employing a minimum of fifty (50) people in full-time direct jobs or employing a minimum of twenty (20) people in full-time direct jobs and having a capital investment in such facility of at least Five Million Dollars ($5,000,000.00).

(d) **Data/Information Processing:**

The term “Data/Information Processing Enterprise” means a data or information processing business, creating a minimum of 50 new full time jobs and having a capital investment of at least $2,000,000 or creating a minimum of 20 new full time jobs with a capital investment of at least $5,000,000. Eligibility will be determined by MBFC on a project by project basis.

(e) **National or Regional Headquarters:**

The term “national headquarters” means the office of a multi-state business, where managerial, professional, technical and administrative personnel are domiciled and employed to perform centralized functions such as financial, legal, technical and personnel. The term “regional headquarters” means one of several management offices of a multi-state business that is responsible for planning, directing, and controlling all aspects of the business operations within a sub-divided area of the United States. Companies must create a minimum of 35 new full time jobs and make a capital investment in such facility of at least $2,000,000.

(f) Research and Development Facility:

The term “research and development facility” means a business engaged in laboratory, scientific or experimental testing and development related to new products, new uses for existing products or improving existing products, creating a minimum of 10 new full time jobs, paying 150% of the state average wage, and making a capital investment of at least $2,000,000.

(g) Technology Intensive Enterprises:

The term “technology intensive enterprise” means an enterprise involved in the manufacture of plastics, chemicals, automobiles, aircraft, computers or electronics, a research and development facility, a computer design facility, a software publishing facility, or other technology intensive business. The enterprise must create a minimum of 10 new full time jobs, paying 150% of the state average wage, with at least 10% of the workforce in the facility employed as scientists, engineers or computer specialists, and making a capital investment of at least $2,000,000.

SECTION 5. VALUATION OF MERGERS AND ACQUISITIONS. A company that has been awarded income tax credits under the RED program and that subsequently merges with or acquires the assets of another company will use a modified expansion formula to determine the income tax credits available to the new entity. To apply the modified expansion formula, determine the percentage increase in employment using the new base level for employment and the percentage increase in capital investment in the State of Mississippi ("State") using the new base level for existing investment in the State. Then calculate the modified economic tax valuation percentage according to the expansion formula.

"New Base Level of Employment." To establish a new base level of employment, the RED participant's average employment in the State for the twelve (12) months prior to the date of inducement for the bond financing pursuant to which RED credits were granted is added to the average employment in the State of the company that is merging with or into the RED participant for the twelve (12) months preceding the effective date of the merger. The sum of these two employment levels is the new base level of employment that is to be used in the modified expansion formula.

"New Base Level of Investment." To establish a new base level of investment in the state, the value of the RED participant's property in the state at the time the RED Company was induced for RED financing is added to the value of the property in the State at the effective date of the merger of the company that is merging with or into the RED participant. The value used for both companies shall be the value as determined by the tax assessors of the county or counties, as appropriate, where the companies' facilities in Mississippi are located.

The modified expansion formula is to be applied as follows:

1. **Increase in Employment (Net New Jobs)**. The determination of net new jobs will be computed as follows:

(a) The new base level of employment as defined above will be the used as the existing employment base.

(b) The future employment base will be the average number of employees reported by the surviving entity after the merger to the MESC each year after the effective date of the merger.

(c) The percentage of total increased employment is determined by subtracting the existing employment base from the future employment base, dividing the result by the future employment base, and then converting the resulting fraction to a percentage. This percentage will be adjusted each year based on the average number of employees reported by the Company to MESC each year.

2. **Increase in Capital Investment**. The determination of increased capital investment will be determined as follows:

(a) The present value of the Company's capital assets will equal the new base level of investment as defined above.

(b) The value of new fixed assets will equal the cost of the land, building and equipment purchased with bond proceeds or Company Equity in connection with the project financed with proceeds of loan made in connection with the RED financing. Company Equity shall consist of money generated from the Company's earnings from operations or from investment by the Company's owners, including partners, stockholders, members or sole proprietors, as the case may be.

(c) The percentage of the capital investment increase will be determined by dividing the cost of the new fixed assets by the new base level of investment and then converting the resulting fraction to a percentage.

3. **Modified Economic Tax Valuation Percentage**.

(a) The modified economic tax valuation percentage ("METVP")for the surviving entity shall be determined by multiplying the percentage of total increased employment by two (2), adding the percentage of increase of capital investment, and then dividing by three (3). The resulting METVP shall be the percentage of the surviving entity's state income tax liability eligible for an income tax credit under the RED program. If the resulting METVP is a negative number, then no income tax credit shall be available for that year.

SECTION 6. REORGANIZATION. A Company that reorganizes without affecting its assets or employment in the State in any significant amounts shall continue to determine the income tax credits available to it under the RED program in the same manner as the credits were determined before the reorganization. This rule shall apply even though the reorganization may be structured in the form of a merger.

SECTION 7. SUBSEQUENT PROJECTS — FIRST IN, FIRST OUT APPLICATION OF CREDITS. Income tax credits shall be applied first from the earliest project financed with proceeds of RED connected financing. Then credits from subsequent projects financed with proceeds of RED connected financings shall be applied in chronological order. The intent is that the credits are to be used in chronological order so that credits from the earlier projects are exhausted prior to applying any unexpired credits from projects that occur later in time. In the event that the Company's income taxes in a particular year are larger than the credits available from one project, credits available from subsequent projects may be applied to the income taxes to the extent of such credits and to the extent permitted under the financing agreement that controls those credits.

SECTION 8. LEASED EMPLOYEES. Employees leased by an eligible company shall be considered employees of the eligible company for purposes of determining the employment level of the company's RED-financed project under the following conditions. Only leased employees whose primary workplace is the physical location of the company's project financed or to be financed under the RED program shall be considered as employees connected with the project. An employee's primary workplace is the location at which he spends at least two-thirds (2/3) of his working hours on an annual basis. Vacation, sick leave, and other hours shall be allocated ratably among the various locations at which the leased employee works during the year. Evidence that the leased employees are working for the company shall be submitted to the staff of Mississippi Business Finance Corporation in such form, containing such information, and at such intervals as the staff shall require.

SECTION 9. DISASTER CONSIDERATION. A company that was destroyed by Hurricane Katrina applying for RED benefits shall, on a case-by-case basis, be considered a new company for the purposes of determining the percent of the company's state income tax liability eligible for an income tax credit under the RED Program. Determination of such disaster consideration shall be the authority of the Mississippi Business Finance Corporation.